



0000099366

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

DATE: June 15, 2009

RE: STAFF REPORT FOR MONTEZUMA RIMROCK WATER COMPANY, L.L.C.'S
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
04254A-08-0361) AND FINANCING (DOCKET NO. W-04254A-08-0362)

Attached is the Staff Report for Montezuma Rimrock Water Company, L.L.C.'s application for a permanent rate increase and financing. Staff recommends approval of the rate increase application using Staff's recommended rates and charges. Staff also recommends approval of the financing application. Staff further recommends an arsenic remedial surcharge mechanism to address the debt service on the financing.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before June 25, 2009.

EGJ:DRE:kdh

Originator: Darak R. Eaddy

Arizona Corporation Commission
DOCKETED

JUN 15 2009

DOCKETED BY	<i>ME</i>
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Service List for: Montezuma Rimrock Water Company, L.L.C.
Docket Nos. W-04254A-08-0361 and W-04254A-08-0362

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MONTEZUMA RIMROCK WATER COMPANY, L.L.C.

DOCKET NO. W-04254A-08-0361

&

DOCKET NO. W-04254A-08-0362

**APPLICATION FOR A
PERMANENT RATE INCREASE**

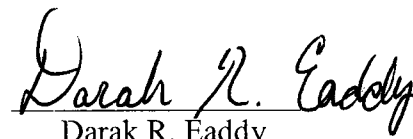
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APPLICATION FOR FINANCING APPROVAL

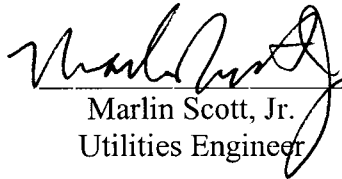
JUNE 15, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Montezuma Rimrock Water Company L.L.C., Docket Nos. W-04254A-08-0361 and W-04254A-08-0362, was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application, recommended revenue requirements, rate base, rate design, financial review and analysis, and financing approval. Marlin Scott Jr. was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utility Analyst II



Marlin Scott, Jr.
Utilities Engineer



Bradley Morton
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
MONTEZUMA RIMROCK WATER COMPANY, L.L.C.
APPLICATION FOR A PERMANENT RATE INCREASE & FINANCING
DOCKET NOS. W-04254A-08-0361 AND W-04254A-08-0362

Montezuma Rimrock Water Company, L.L.C. ("Montezuma Rimrock" or "Company") is engaged in the business of providing potable water service to customers near Rimrock in Yavapai County. The Company is located approximately 10 miles northeast of Camp Verde in Yavapai County, Arizona. The Company provides water services to approximately 208 customers, and its current rates were approved March 25, 2002, per Arizona Corporation Commission Decision No. 64665.

Currently the Company is not delivering water that meets the United States Environmental Protection Agency's ("EPA") arsenic standards. The Company will need to procure funds for the engineering, construction, and installation of an arsenic treatment system. Because the Company lacks the funds to purchase an arsenic treatment system, Montezuma Rimrock has filed a financing application requesting authorization to borrow a total of \$165,000 in debt financing from the Water Infrastructure Financing Authority ("WIFA") for the purchase and installation of an arsenic treatment system. Staff recommends approval of a WIFA loan amount not to exceed \$165,000 for this project.

Staff has also recommended an arsenic remediation surcharge mechanism ("ARSM") to provide for the debt financing on the WIFA loan. The ARSM will establish the methodology and conditions for setting an arsenic surcharge to provide funds for the loan's interest and principal payments.

The Company proposes total operating revenue of \$128,265¹, an increase of \$32,000, or 33.24 percent over test year revenue of \$96,265. Staff recommends total operating revenue of \$106,850, an increase of \$5,551, or 5.48 percent over the Staff-adjusted test year revenue of \$101,299. The Company's proposed revenues result in an operating income of \$23,201. Staff recommended revenues would result in an operating income of \$13,624.

The Company has proposed an original cost rate base ("OCRB") of \$25,857, and an operating margin of 18.09 percent. The Company's proposed rate structure would not increase the monthly minimum charge from the current tariff rates, and the Company's proposed three-tiered rate design would establish tier break-over points at 10,000 and 20,000 gallons. There would be no increase to the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,415 gallons.

Staff has recommended an OCRB of \$4,084, and an operating margin of 12.75 percent. Staff's recommended rates, including the arsenic remedial surcharge, would increase the typical

¹ The Company requested total operating revenue of \$123,050 on the amended page 6 of the Company's application. However, this figure does not include \$4,361 in other water revenues and does not reconcile with the Company's amended Comparative Income Statement figure of \$123,904 that Staff utilized as the Company's proposed rates.

5/8 x 3/4-inch meter residential bill with a median usage of 4,415 gallons from \$35.42 to \$40.70, for an increase of \$5.28 or 14.9 percent.

Staff Recommendations:

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4 Pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company continue to use the typical and customary depreciation rates as delineated on Table B in Section H of the attached Engineering Report.

Staff further recommends approval of separate installation charges for the service line and meter installation charges as delineated in Tables C-1 and C-2 in Section I of the attached Engineering Report.

Staff further recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval of Construction for the new Well #4.

Staff further recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate of Approval of Construction for the arsenic treatment project to address the Company not currently delivering water that meets the EPA water quality standards.

Staff further recommends Montezuma Rimrock be authorized to incur long-term debt in the form of a WIFA loan up to the amount of \$165,000.

Staff further recommends ordering the Company to file an arsenic remediation surcharge application for the \$165,000 loan the Company has requested from WIFA, as well as any loan documents or agreements, within 30 days after securing the loan. The surcharge will provide funds that enable the Company to meet its principal and interest obligations on the \$165,000 WIFA loan.

Staff further recommends that the Company follow the same methodology presented in this Report and as shown in Schedules DRE-6 and DRE-7 to calculate the additional revenue needed to meet its interest and principal payments on the WIFA loan using actual loan amounts and use the result to develop its arsenic removal surcharge application. The increase in revenue calculation should be included in the arsenic removal surcharge application, and filed under the instant case's docket number.

Staff further recommends the maximum interest rate used to compute the arsenic remediation surcharge is the prime rate plus 200 basis points. The Company can apply the subsidy rate granted by WIFA on its loan to this maximum interest rate.

Staff further recommends that the arsenic surcharge be a separate line item charge on the customer's monthly bill, labeled as "arsenic surcharge".

Staff further recommends ordering Montezuma Rimrock to file with Docket Control, as a compliance item in this docket, copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan within 30 days after the loan agreement is signed by both WIFA and the Company.

Staff further recommends ordering Montezuma Rimrock to file with Docket Control, as a compliance item in this docket, copies of all executed financing documents within 30 days after the loan agreement is signed.

Staff further recommends that the Company be ordered to file a rate application with the Commission by no later than May 31, 2012, using a test year ending December 31, 2011.

Staff further recommends that if the Company fails to file the above rate application, the arsenic surcharge automatically cease.

Staff further recommends authorizing the Company to execute any documents necessary to effectuate the authorizations granted.

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ATTACHMENT

ENGINEERING REPORT (RATES)A
ENGINEERING REPORT (FINANCE).....B

Fact sheet

Type of Ownership: Arizona Limited Liability Company.

Location: The Company serves water customers in Yavapai County, approximately 10 miles northeast of Camp Verde.

Active Management Area: The Company is not located in an Active Management Area.

Rates: Permanent rate increase application filed: July 16, 2008. The application became sufficient on January 20, 2009.

Current Rates: Decision No. 64655, dated March 25, 2002.

Prior Test Year: December 31, 2000.

Current Test Year Ended: December 31, 2007.

Metered Rates:

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge			
5/8 X 3/4 – inch meter	\$ 27.25	\$ 27.25	\$ 27.25
3/4 – inch meter	\$ 40.88	\$ 40.88	\$ 40.88
1 – inch meter	\$ 68.13	\$ 68.13	\$ 68.13
1 - 1/2 – inch meter	\$ 136.25	\$ 136.25	\$ 136.25
2 – inch meter	\$ 216.39	\$ 216.39	\$ 218.00
3 – inch meter	\$ 408.75	\$ 408.75	\$ 436.00
4 – inch meter	\$ 681.25	\$ 618.25	\$ 681.25
6 – inch meter	\$1,362.50	\$1,362.50	\$1,362.50
Gallons in minimum	0	0	0
Per 1,000 Gallons for all usage	\$1.85	N/A	N/A
Tier One from 1 gallon to 10,000 gallons	N/A	\$ 1.85	N/A
Tier Two from 10,001 gallons to 20,000 gallons	N/A	\$ 3.70	N/A
Tier Three all gallons over 20,000	N/A	\$ 5.55	N/A

Fact Sheet (Continued)

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Tier One from 1 gallon to 4,000 gallons	N/A	N/A	\$1.50
Tier Two from 4,001 gallons to 10,000 gallons	N/A	N/A	\$2.50
Tier Three all gallons over 10,000	N/A	N/A	\$4.00

Typical residential bill:

Average use (5,813 gallons)	\$38.00	\$38.00	\$37.78
Median use (4,415 gallons)	\$35.42	\$35.42	\$34.29

Customers:

Number of customers in prior test year (12/31/00): 61

Average Number of customers in the current test year (12/31/07): 208

Current test year customers by meter size:

5/8 X 3/4 – inch	196
3/4 – inch	10
1 – inch	2
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0

Notifications:

An affidavit of mailing of the customer notification was filed on April 14, 2008.

Number of opinions filed against the rate increase application: 1.

Number of customer complaints filed against the Company from January 1, 2006 to present: 2.

Percentage of complaints to customer base: 0.96 percent (2 / 208).

All complaints have been resolved and closed.

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff"), for Montezuma Rimrock Water Company, L.L.C. ("Montezuma Rimrock" or "Company") reflect total operating revenue of \$101,299 and operating income of \$8,073 for an operating margin of 7.97 percent as shown on Schedule DRE-1. The original cost rate base ("OCRB") as adjusted by Staff is \$4,084.

Montezuma Rimrock's proposed rates would produce total operating revenue of \$128,265² and operating income of \$23,201, or an 18.09 percent operating margin. The Company proposed OCRB is \$25,857. There would be no increase to the typical 5/8 x 3/4 -inch meter residential bill with a median usage of 4,415 gallons due to the Company's current median usage being below the Company's proposed first tier break-over point, as shown on Schedule DRE-5.

Staff recommends rates that would produce total operating revenue of \$106,850 and operating income of \$13,624, or a 12.75 percent operating margin. Staff recommends an OCRB of \$4,084. Staff's recommended rates would decrease the typical residential bill with a median usage of 4,415 gallons, from \$35.42 to \$34.29, for a \$1.13 or 3.2 percent decrease, as shown on Schedule DRE-5.

The Company reports that its proposed rate increase is necessary at this time to encourage conservation of water. The Company currently has a flat tier rate structure and proposes a three-tier inverted rate structure to encourage water conservation. Montezuma Rimrock also noted that it filed the rate case to address the Company's water supply not meeting the U.S. Environmental Protection Agency's ("EPA") arsenic standards.

During the test year ended December 31, 2007, Montezuma Rimrock provided potable water service to 208 customers. There were 196 5/8 x 3/4-inch meters, 10 3/4-inch meters, and 2 1-inch meters utilized during the test year.

The Company is registered as an Arizona limited liability company with the Corporations Division of the Arizona Corporation Commission ("Commission").

Company Background

Montezuma Rimrock is an Arizona limited liability company engaged in the business of providing water services in an area located approximately 10 miles northeast of the town of Camp Verde in Yavapai County, Arizona. The Company's service territory encompasses approximately 3/8 of a square-mile.

The Company received its Certificate of Convenience and Necessity ("CC&N") through a transfer authorized in Decision No. 67583, dated February 15, 2005. Montezuma Rimrock's

² The Company requested total operating revenue of \$128,265. However, the Company's proposed rates would actually produce \$102,519 in revenues, a \$25,746 deficiency.

current rates were established in Decision No. 64665, dated March 25, 2002. The Company was acquired by its current owners in a sale of assets and transfer of the Certificate of Convenience and Necessity from Montezuma Estates Property Owners' Association ("MEPOA") to Montezuma Rimrock in Commission Decision No. 67583, dated February 15, 2005.

On July 16, 2008, Montezuma Rimrock filed an application for a permanent rate increase. On August 14, 2008, Staff filed a Letter of Deficiency. An additional Letter of Deficiency was filed on September 29, 2008. Staff issued a Letter of Sufficiency on January 20, 2009. The Company provided evidence in its application that customers had been notified of the filing of the rate case by mail on April 14, 2008.

Consumer Services

A review of the Consumer Services Section database from January 1, 2006, through May 4, 2009, revealed that there was one opinion filed opposing the rate increase request. The review revealed that in 2007 there were 2 complaints filed against the Company. All complaints have been resolved and closed.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

The Company is current on its property and sales tax payments.

The Company is in good standing with the Corporations Division of the Commission.

The EPA has reduced the arsenic maximum contaminant level (MCL) in drinking water from 50 parts per billion ("ppb") to 10 ppb. The arsenic levels reported by Montezuma Rimrock do not comply with the new arsenic MCL.

Engineering

The water system was field inspected on September 10, 2008, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Patricia Olsen, Manager for the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

The Company's system does not have adequate well and storage capacity at this time. Staff recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the Arizona Department of Environmental Quality ("ADEQ") Certificate for Approval of Construction for the new Well #4.

The ADEQ has reported that the Company is not currently delivering water that meets water quality standards. Staff recommends that the Company file with Docket Control, as a

compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate for Approval of Construction for the arsenic treatment project.

The Company has adopted Staff's typical and customary depreciation rates as delineated in Table B in Section H of the Engineering Report and Staff recommends that the Company continue to use these depreciation rates.

The Company did not request changes to its service line and meter installation charges. However, Staff recommends approval of separate installation charges for the service line and meter installation charges as delineated in Tables C-1 and C-2. in Section I of the attached Engineering Report.

Hook-Up Fee

In Commission Decision No. 59883, the Company was approved for an off-site hook-up fee to cover the cost of installing backbone plant and for the replacement of original mains that were improperly installed by the original developer. Because of rising costs for material and labor, the Company's hook-up fee was increased in Commission Decision No. 64665.

Staff audited the hook-up fee account and found that the Company is employing the funds from the hook-up fee in the proper manner as approved for in Decision No. 59883. Due to the significant costs associated with installing backbone plant and replacement of improperly installed mains, the Company continues to require the funds generated from the hook-up fee account. However, Staff is concerned at the level of degradation to the Company's rate base as a result of the funds collected under the hook-up fee. Staff suggests that when possible, the Company should consider equity investment rather than hook-up fees, as an alternative approach to funding installation of backbone plant and replacement of improperly installed mains.

Due to the declining rate base, Staff believes a shorter duration between the Company's current rate application and its next rate application is appropriate. The shorter duration is preferable to the current seven year time period since the last rate application and would provide Staff with the opportunity to examine if the need for a hook-up fee is still applicable. Therefore, Staff recommends the Company be ordered to file a rate application with the Commission by May 31, 2012, using a test year ending December 31, 2011.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by \$21,773 from \$25,857 to \$4,084 as shown on Schedule DRE-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Staff's adjustments to plant in service resulted in a net increase of \$216,020, from \$222,243 to \$438,263 as shown on Schedule DRE-2, page 2. A significant portion of Staff's increase to plant in service was the result of Staff's adjustments to reflect the plant in service balances established in the Company's last rate case by Decision No. 64665.

Due to the lack of records transferred from MEPOA to the Company at the time of acquisition, documentation on plant additions since the preceding rate application was non-existent for the years 2001 to 2005. Staff utilized the Company's annual reports filed with the Corporations Division of the Commission to calculate plant balances for the years in which no other verifiable documentation exists.

Land and Land Rights - Adjustment A decreases the land and land rights account by \$8,509, from \$9,259 to \$750 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$750 balance established by Decision No. 64665 and Staff's removal of \$8,509 in unsupported plant additions.

Structures and Improvements - Adjustment B increases the structures and improvements account by \$16,998, from \$17,400 to \$34,398 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$6,168 balance established in Decision No. 64665 and a \$28,230 increase in structures and improvements supported by documentation.

Wells and Springs - Adjustment C increases the wells and springs account by \$10,432, from \$39,152 to \$49,584 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$7,602 balance established in Decision No. 64665 and a \$41,982 increase in the wells and springs account that was supported by documentation.

Pumping Equipment - Adjustment D increases the pumping equipment account by \$19,763, from \$16,793 to \$36,556 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$23,159 balance established in Decision No. 64665 and a \$13,397 increase in pumping equipment supported by documentation.

Solution Chemical Feeders - Adjustment E increases the solution chemical feeders account by \$2,138, from \$1,608 to \$3,746 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$2,957 balance established in Decision No. 64665 and a \$789 increase in the solution chemical feeders account that was supported by documentation.

Storage Tanks - Adjustment F increases the storage tanks account by \$18,744, from \$12,284 to \$31,028 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$25,744 balance established in Decision No. 64665 and a \$5,284 increase in storage tanks supported by documentation.

Transmission and Distribution Mains - Adjustment G increases the transmission and distribution mains account by \$143,883, from \$42,652 to \$186,535 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$161,809 balance established in Decision No. 64665 and a \$24,726 increase for transmission and distribution mains supported by documentation submitted by the Company.

Services - Adjustment H decreases the services account by \$635, from \$10,847 to \$10,212 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$2,694 balance established in Decision No. 64665 and Staff's removal of \$3,329 in unsupported plant additions.

Meters and Meter Installations - Adjustment I increases the meters and meter installations account by \$20,427 from \$25,293 to \$45,720 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$18,418 balance established in Decision No. 64665 and a \$27,302 increase in meters and meter installations supported by documentation.

Other Plant and Miscellaneous Equipment - Adjustment J increases the other plant and miscellaneous equipment account by \$3,488 from \$6,690 to \$10,178 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$10,178 increase in the account that was supported by documentation submitted by the Company.

Office Furniture and Equipment - Adjustment K decreases the office furniture and equipment account by \$107, from \$1,841 to \$1,734 as shown on Schedule DRE-2, pages 2 and 4. The adjusted amount reflects Staff's removal of \$107 in unsupported plant additions for office furniture and equipment.

Computers and Software - Adjustment L increases the computers and software account by \$1,239, from \$0 to \$1,239 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$1,239 increase in the account that was supported by documentation submitted by the Company and erroneously recorded as other plant and miscellaneous equipment.

Transportation Equipment - Adjustment M decreases the transportation equipment account by \$12,000, from \$12,000 to \$0 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's removal of a personal vehicle used for Company business.

Tools Shop and Garage Equipment - Adjustment N increases the tools shop and garage equipment account by \$157, from \$12,481 to \$12,638 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$12,638 increase in the account that was supported by documentation submitted by the Company.

Other Rate Base Items

Accumulated Depreciation

Staff increased accumulated depreciation by \$124,610 from \$43,929 to \$168,539 as shown on Schedule DRE-2, pages 1 and 5. The increase is based upon several Staff adjustments made to plant in service account balances and the addition of depreciation expense to accumulated depreciation since the last rate case.

Advances in Aid of Construction

Staff increased advances in aid of construction ("AIAC") by \$38,502, from \$27,855 to \$66,357 as shown on Schedule DRE-2, page 1 and 6. The adjustment reflects Staff's calculation of AIAC based upon the balance established in Decision No. 64665 of \$36,572 and documentation submitted by the Company. Staff utilized the Company's filed annual reports to support Staff's calculation of AIAC for 2001 to 2005.

Contributions in Aid of Construction

Staff increased contributions in aid of construction ("CIAC") by \$127,550, from \$114,281 to \$241,831 as shown on Schedule DRE-2, page 1 and 6. The adjustment reflects Staff's calculation of CIAC based upon the balance established in Decision No. 64665 of \$88,800 and documentation submitted by the Company. Staff utilized the Company's filed annual reports to support Staff's calculation of CIAC for 2001 to 2005.

Amortization of CIAC

Staff increased amortization of CIAC by \$42,983, from \$0 to \$42,983 as shown on Schedule DRE-2, page 1 and 6. The adjustment reflects Staff's calculation of CIAC amortization based upon the balance established in Decision No. 64665 of \$2,754 and Staff's calculation of the CIAC account balance. The Company is not properly accounting for contributions as it is not presently recording the amortization of CIAC.

Working Capital

Staff's adjustments to working capital resulted in a net increase of \$9,886, from \$0 to \$9,886 as shown on Schedule DRE-2, pages 1 and 7, as a result of increasing cash working capital.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus one twenty-fourth of purchased power and purchased water expenses.

Operating Income Statement

Operating Revenue

Staff's adjustment to operating revenue resulted in an increase of \$5,034, from \$96,265 to \$101,299, as shown on Schedule DRE-3, pages 1 and 2.

Staff's adjustment reflects total operating revenues based on the Company submitted bill counts. The Company's metered water revenue per the bill counts does not reconcile with the metered water revenue submitted in the Company's application. Staff audited the Company's operating revenue by examining the Company's general ledger revenue accounts and by analyzing the Company's check register. Unfortunately neither examination eliminated the discrepancy between the revenue per the bill count and the operating revenue submitted by the Company with the application. After several attempts by the Company and Staff to reconcile the difference, the Company agreed with Staff's adjustment to reflect the revenue per the bill count and increase total operating revenue by \$5,034 as shown on Schedule DRE-3, pages 1 and 2.

Operating Expenses

Staff's adjustment to operating expenses resulted in a decrease of \$11,838 from \$105,064 to \$93,226 as shown on Schedule DRE-3 page 1. The adjustments are explained below.

Salaries and Wages - Adjustment B decreases salaries and wages by \$847 from \$8,516 to \$7,669 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of salaries and wages expense based on the documentation submitted by the Company.

Purchased Water - Adjustment C increases purchased water expense by \$13, from \$697 to \$710 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of purchased water expense based on the documentation submitted by the Company.

Purchased Power - Adjustment D increases purchased power expense by \$234, from \$5,559 to \$5,793 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of purchased power expense based on the documentation submitted by the Company.

Repairs and Maintenance - Adjustment E increases repairs and maintenance by \$819, from \$14,449 to \$15,268 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of repairs and maintenance expense based on the documentation submitted by the Company.

Outside Services - Adjustment F decreases outside services expense by \$2,005, from \$16,664 to \$14,659 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects the removal of claimed expenses not supported by documentation.

Water Testing - Adjustment G decreases water testing by \$658 from \$2,709 to \$2,051 as shown on Schedule DRE-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined by Staff and reported in the attached Engineering Report.

Transportation Expenses - Adjustment H increases transportation expenses by \$1,579, from \$10,507 to \$12,086 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of transportation expense based on documentation submitted by the Company and a reimbursement for the usage of a personal vehicle for Company business.

Depreciation Expense - Adjustment I decreases depreciation expense by \$4,991, from \$11,578 to \$6,587 as shown on Schedule DRE-3, pages 1, and 3. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Montezuma Rimrock.

Taxes other than Income - Staff's adjustment J decreases taxes other than income by \$5,981, from \$5,981 to \$0 as shown on Schedule DRE-3, pages 1, and 4. This adjustment reflects Staff's removal of sales taxes collected by the Company and included in operating expenses. These sales taxes were paid to the Arizona Department of Revenue and should be removed from expenses, since the corresponding collected taxes were removed from revenue.

Operating Margin

The Company's proposed rates and charges would provide an operating income of \$23,201 for an operating margin of 18.09 percent.

Staff's recommended rates and charges would provide an operating income of \$13,574 for an operating margin of 12.71 percent. Staff utilized the operating margin to determine revenue requirement due to the Company's extremely low rate base not producing sufficient revenues for the Company's operating needs when applying a rate of return on rate base.

Revenue Requirement

Staff recommends total operating revenue of \$106,850, a \$5,551 or 5.48 percent increase over the Staff adjusted test year operating revenue of \$101,299. Staff's recommended revenue provides an operating income of \$13,624, an operating margin of 12.71 percent, and a rate of return of 333.61 percent as shown in Schedule DRE-1.

Staff believes that a 12.71 percent operating margin provides ample funds to manage contingencies, operating expenses, below the line expenses, etc. In addition, the Company's hook-up fee provides funds towards the installation of backbone plant and replacement of original mains, valves, and fittings and therefore mitigates the Company's use of funds on such items. Staff utilized the operating margin to derive the revenue requirement because using the Company's low rate base to derive a typical rate of return would have resulted in a revenue too

low to keep the Company viable, i.e., revenue too low to produce sufficient revenues for the Company's operating needs.

Rate Design

Schedule DRE-4 Pages 1 and 2 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's present monthly customer charges vary by meter size as follows: 5/8-3/4 inch \$27.25; 3/4-inch, \$40.88; 1-inch, \$68.13; 1½-inch, \$136.25; 2-inch, \$216.39; 3-inch, \$408.75; 4-inch, \$681.25; and 6-inch, \$1,362.50. No gallons are included in the minimum. The present commodity rate is a flat rate of \$1.85 per thousand gallons for all usage.

The Company has requested an inverted three-tier rate structure with tier break-over points at 10,000 and 20,000 gallons with corresponding tier rates of \$1.85, \$3.70, and \$5.55. Staff also recommends an inverted three-tier rate structure but with tier break-over points at 4,000 and 10,000 gallons with corresponding tier rates of \$1.50, \$2.50, and \$4.00. The transition from a flat rate structure to an inverted three-tier structure required Staff to lower the current flat rate of \$1.85 to \$1.50 in Staff's recommended first tier.

The Company's proposed rates would not result in an increase in the typical 5/8 x 3/4 - inch meter residential bill with a median usage of 4,415 gallons due to the Company's current median usage being below the Company's proposed first tier break-over point, as shown on Schedule DRE-5.

Staff's recommended rates would increase the typical 5/8 x 3/4 -inch meter residential bill with a median usage of 4,415 gallons from \$35.42 to \$34.29, for a decrease of \$1.13 or 3.2 percent.

Miscellaneous Service Charges

The Company has not proposed any increases to its current miscellaneous service charges. The Company is seeking a \$50 charge for delinquent reconnection after hours, a service charge for which Montezuma Rimrock does not currently have a tariff rate for. Staff finds the proposed charge to be within the range typically approved by the Commission for this particular service charge and does not oppose its addition to the Company's tariff.

Service Line and Meter Installation Charges

Staff recommends approval of Staff's Service Line and Meter Installation Charges as shown on Tables C-1 and C-2 in Section I of the attached Engineering Report.

Financing

Introduction

On July 16, 2008, Montezuma Rimrock submitted a financing application to assist in funding the construction of an arsenic treatment project. This project was estimated at \$150,000 and the Company was requesting approval of funding through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness. On January 14, 2009, the Company submitted a filing requesting the WIFA loan amount be increased and approved for \$165,000.

Staff recommends approval for the Company to borrow up to \$165,000 from WIFA for the purchase and installation of an arsenic treatment system.

Public Notice

The public notice was mailed to customers on April 14, 2008.

Purpose and Description of Proposed Financing

Montezuma Rimrock is seeking authorization for a WIFA loan to provide for the engineering, construction, and installation of an arsenic treatment system. The term of the proposed \$165,000 WIFA loan is 20 years. The maximum interest rate that Staff recommends to be chargeable is the prime rate plus 200 basis points.

Financing Application

The Company is requesting WIFA financing approval in the amount of \$165,000 for the arsenic project as follows:

1. Arsenic treatment system at 160 GPM	\$ 81,746
- Adedge treatment – adsorption media	
2. Grading and concrete slab at Well #1	\$ 5,816
3. Plumbing modifications & upgrade electrical	\$ 6,812
4. Water line interconnection with Well #1 & Well #4	\$ 42,870
- 2,500 feet of 4-inch PVC pipe	
5. New pump house, 10' x 20'	\$ 5,907
6. Radio telemetry	\$ 8,158
6. Engineering (8.3%)	\$ 13,691

=====
Total: \$165,000

Staff concludes that the arsenic treatment project is appropriate and the cost estimate totaling \$165,000 is reasonable.

Financing Conclusion

Staff concludes that the construction of an arsenic treatment system is necessary for Montezuma Rimrock to comply with the EPA's revised drinking water standard that requires reducing the arsenic level in drinking water to 10 ppb or less.

Staff further concludes that the Company should be granted authorization for a WIFA loan up to the total of \$165,000 to purchase an arsenic treatment system to comply with the EPA revised drinking water standard.

Staff further concludes that issuance of the proposed debt financing for the purposes stated by the Company is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide public service.

Arsenic Remediation Surcharge Mechanism ("ARSM")

Introduction

Staff has recommended approval for the Company's financing application to borrow up to \$165,000 from WIFA for the purchase and installation of an arsenic treatment system. In order to provide for the debt service on that WIFA loan, Staff further recommends an arsenic remediation surcharge mechanism ("ARSM").

Purpose and Terms of the ARSM

As stated previously, the Company is seeking authorization for a WIFA loan to provide for the engineering, construction, and installation of an arsenic treatment system. The term of the proposed \$165,000 WIFA loan is 20 years. The maximum interest rate that Staff recommends to be chargeable is the prime rate plus 200 basis points. The actual interest rate will not be known until a time closer to the final closing on the WIFA loan.

The ARSM will establish the methodology that will detail how the surcharge to provide funds for the debt service on the WIFA loan will be calculated and applied to the rates established in this rate application. An ARSM is appropriate because the Company currently is not meeting the EPA's standards for drinking water, and because of the Company's size and limited current financial situation, does not have access to other funding sources to correct the arsenic problem.

Montezuma Rimrock can submit an ARSM application under this Docket to obtain approval of the specific surcharge amount, as per the methodology Staff has defined in this Report.

Based on the surcharge calculation of the \$165,000 WIFA loan, the Company would need an additional \$3,488 and \$13,074 for principal and interest, respectively, for a total annual ARSM requirement of \$16,562.

Engineering Analysis of the ARSM

A field inspection of the Montezuma Rimrock water system was conducted on September 10, 2008. Staff has determined that Montezuma Rimrock is in need of an arsenic treatment system for its water system.

Financial Analysis

Staff's analysis is based on Staff's recommended rates for the Company's rate increase application and the Company's financial statements dated December 31, 2007. The financial analysis shown on Schedule DRE-6 presents selected financial information from the financial statements and the pro forma effect of a \$165,000 WIFA loan.

Schedule DRE-6 also shows the capital structure and ratios for times interest earned ratio ("TIER") and debt service coverage ("DSC"). TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term. DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation, and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

Schedule DRE-6, column B, shows that the pro forma effect on the Company's financial ratios of obtaining a WIFA loan in the amount of \$165,000 at an interest rate of 8.0 percent and the implementation of Staff's recommended permanent rates (including the arsenic surcharge) for the Company's rate application. These factors produce a TIER of 2.28 and a DSC of 2.22. These ratios indicate that Montezuma Rimrock would have sufficient earnings and operating cash flow to meet the long-term debt obligations of a \$165,000 loan.

The projected DSC and TIER that the Company will achieve after the implementation of the arsenic surcharge is higher than the WIFA minimums due to the inclusion of the Company's projected operating results in the computation of these ratios. The arsenic surcharge is designed to only generate sufficient funds to provide for the interest expense and principal repayment on the WIFA loan. There is no change to the Company's current financial position as the entirety of the arsenic surcharge funds will be utilized for the debt financing, thus leaving the Company in exactly the same financial position it was in before the implementation of the surcharge.

Additional Surcharge Revenue Required to Preserve Cash Flow

The Company must comply with the EPA arsenic drinking water standard regardless of its financial position. Accordingly, Staff calculated the additional annual revenue that Montezuma Rimrock would require (given adoption of Staff's recommended permanent rates for the Company's rate application) to meet its obligations on a \$165,000 WIFA loan, and provide

the Company with the same amount of cash flow it would experience before the loan. As shown on Schedule DRE-6, on a \$165,000 WIFA loan, the Company would need an additional \$3,488 for principal repayment and \$13,074 for interest expense for a total of \$16,562. There is no income tax effect as the Company is a limited liability company and not subject to income tax.

Calculation of Surcharge

The following is the methodology that Staff recommends to calculate the arsenic surcharge the Company would receive to provide funds for the debt service on the loan the Company will need to purchase an arsenic treatment system. For illustrative purposes, Staff utilized the \$165,000 WIFA loan and applied the Staff methodology to calculate the arsenic surcharge. Schedule DRE-7 also shows Staff's calculation of the Company's arsenic surcharge with the \$165,000 WIFA loan.

Staff recommends the following steps to calculate the arsenic surcharge once the Company has the final loan amount and other covenants secured:

Example - For Illustrative Purposes Only

Loan amount: \$165,000
Term: 20 years
Stated Annual Interest Rate: 8.00%

Step 1: Find the Annual Payment on the Loan

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in Column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Result

0.10037	Annual payment conversion factor
x \$165,000	(*) Times total amount of the loan
\$ 16,561	(=) Equals annual debt service on the loan (rounded)

Step 2: Find the Annual Interest Payment on the Loan

Refer to Table A and find the annual interest payment conversion factor in Column C that corresponds with the stated annual interest rate of the loan. Multiply the annual interest payment conversion factor by the total amount of the loan to calculate the annual interest expense on the loan.

Result

0.07924	Annual interest payment conversion factor
x \$165,000	(*) Times total amount of the loan
\$ 13,074	(=) Equals annual interest expense on the loan (rounded)

Step 3: Find the Annual Principal Payment on the Loan

Refer to Table A and find the annual principal payment conversion factor in Column D that corresponds with the stated annual interest rate of the loan. Multiply the annual principal payment conversion factor by the total amount of the loan to calculate the annual principal payment on the loan.

Result

0.02114	Annual principal payment conversion factor
x \$165,000	(*) Times total amount of the loan
\$ 3,488	(=) Equals annual principal payment on the loan

Step 4: Find the Debt Service Component of the Annual Surcharge Revenue

Add the annual interest expense on the loan determined in step 2 to the annual principal payment determined in step 3. The sum is the debt service component of the annual surcharge revenue.

Result

\$13,074	Annual interest payment on the loan (Step 2)
+ \$ 3,488	(+) Plus annual principal payment (Step 3)
\$16,561	(=) Equals the debt service component of the annual surcharge

Step 5: Find the equivalent bills.

Multiply the American Water Works Association ("AWWA") meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Result

Col A	Col B	Col C	Col D	Col E
Meter Size	AWWA Meter Capacity Multiplier	Number of Customers	Number of Months in Year	Equivalents Bills Col B x C x D
5/8"x 3/4" Meter	1	196	12	2349
3/4" Meter	1.5	10	12	182
1" Meter	2.5	2	12	53
1½" Meter	5	0	12	0
2" Meter	8	0	12	0
3" Meter	15	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			Total	2,583

Step 6: Find the monthly surcharge for 5/8" x 3/4" customers.

Divide the result obtained in step 4 by the number of equivalent bills calculated in step 5 to obtain the monthly surcharge for 5/8" x 3/4" customers.

Result

\$16,561	Total annual surcharge revenue requirement for the loan (Step 4)
÷ 2,583	Number of equivalent bills (Step 5)
\$ 6.41	(=) Equals the total annual surcharge revenue requirement for the loan (rounded).

Step 7: Find the monthly surcharge for the remaining meter size customers.

Multiply the result obtained in step 6 by the AWWA meter capacity multipliers to obtain the monthly surcharge for all other meter sizes.

Col A	Col B	Col C	Col D
Meter Size	AWWA Meter Capacity Multiplier	5/8" x 3/4" Customer Surcharge	Surcharge by Meter Size Col B X C
5/8"x 3/4" Meter	1	6.41	\$ 6.41
3/4" Meter	1.5	6.41	\$ 9.62
1" Meter	2.5	6.41	\$ 16.03
1½" Meter	5	6.41	\$ 32.06
2" Meter	8	6.41	\$ 51.29
3" Meter	15	6.41	\$ 96.18
4" Meter	25	6.41	\$ 160.29
6" Meter	50	6.41	\$ 320.59

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

Column A	Column B	Column C	Column D
Annual Interest	Annual Payment Conversion Factor	Annual Interest Payment Conversion Factor	Annual Principal Payment Conversion Factor
3.50%	0.0696	0.0344	0.0352
3.75%	0.0711	0.0369	0.0342
4.00%	0.0727	0.0394	0.0333
4.25%	0.0743	0.0419	0.0324
4.50%	0.0759	0.0444	0.0316
4.75%	0.0775	0.0468	0.0307
5.00%	0.0792	0.0493	0.0299
5.25%	0.0809	0.0518	0.0291
5.50%	0.0825	0.0543	0.0283
5.75%	0.0843	0.0568	0.0275
6.00%	0.0860	0.0593	0.0267
6.25%	0.0877	0.0618	0.0259
6.50%	0.0895	0.0643	0.0252
6.75%	0.0912	0.0668	0.0245
7.00%	0.0930	0.0692	0.0238
7.25%	0.0948	0.0717	0.0231
7.50%	0.0967	0.0742	0.0224
7.75%	0.0985	0.0767	0.0218
8.00%	0.1004	0.0792	0.0211

Typical Bill Analysis

Schedule DRE-8, which is similar to Schedule DRE-5, shows the effect of the arsenic surcharge on the typical 5/8 x 3/4-inch residential customer's bill. The Company's current rates are shown in comparison to Staff's recommended rate increase and surcharge for the \$165,000 WIFA loan.

The arsenic surcharge that Staff calculated using the requested \$165,000 WIFA loan and Staff's recommended rates would increase the typical residential bill with a median usage of 4,415 gallons from \$35.42 to \$40.70 for an increase of \$5.28 or 14.9 percent.

Conclusion

Staff concludes that the construction of an arsenic treatment system is necessary for Montezuma Rimrock to comply with the EPA's revised drinking water standard that requires reducing the arsenic level in drinking water to 10 ppb or less.

Staff further concludes that the Company will need a WIFA loan of up to the total of \$165,000 to purchase an arsenic treatment system to comply with the EPA revised drinking water standard.

Staff further concludes that an ARSM is appropriate for the Company to provide for the debt financing on the Company's requested WIFA loan.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4 Pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company continue to use the typical and customary depreciation rates as delineated on Table B in Section H of the attached Engineering Report.

Staff further recommends approval of separate installation charges for the service line and meter installation charges as delineated in Tables C-1 and C-2 in Section I of the attached Engineering Report.

Staff further recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate of Approval of Construction for the new Well #4.

Staff further recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate of Approval of Construction for the arsenic treatment project to address the Company not currently delivering water that meets the EPA water quality standards.

Staff further recommends Montezuma Rimrock be authorized to incur long-term debt in the form of a WIFA loan up to the amount of \$165,000.

Staff further recommends ordering the Company to file an arsenic remediation surcharge application for the \$165,000 loan the Company has requested from WIFA, as well as any loan documents or agreements, within 60 days after securing the loan. The surcharge will provide funds that enable the Company to meet its principal and interest obligations on the \$165,000 WIFA loan.

Staff further recommends that the Company follow the same methodology presented in this Report and as shown in Schedules DRE-6 and DRE-7 to calculate the additional revenue needed to meet its interest and principal payments on the WIFA loan using actual loan amounts and use the result to develop its arsenic removal surcharge application. The increase in revenue calculation should be included in the arsenic removal surcharge application, and filed under the instant case's docket number.

Staff further recommends the maximum interest rate used to compute the arsenic remediation surcharge is the prime rate plus 200 basis points. The Company can apply the subsidy rate granted by WIFA on their loan to this maximum interest rate.

Staff further recommends that the arsenic surcharge be a separate line item charge on customers' monthly bill, labeled as "arsenic surcharge".

Staff further recommends ordering Montezuma Rimrock to file with Docket Control, as a compliance item in this docket, copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan within 30 days after the loan agreement is signed by both WIFA and the Company.

Staff further recommends ordering Montezuma Rimrock to file with Docket Control, as a compliance item in this docket, copies of all executed financing documents within 30 days after the loan agreement is signed.

Staff further recommends that the Company be ordered to file a rate application with the Commission by no later than May 31, 2012, using a test year ending December 31, 2011.

Staff further recommends that if the Company fails to file the above rate application, the arsenic surcharge automatically cease.

Staff further recommends authorizing the Company to execute any documents necessary to effectuate the authorizations granted.

Montezuma Rimrock Water Company, L.L.C.

Docket No. W-04254A-08-0361

Schedule DRE-1

Test Year Ended: December 31, 2007

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$91,904	\$96,938	\$123,904	\$102,489
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	4,361	4,361	4,361	4,361
Total Operating Revenue	\$96,265	\$101,299	\$128,265	\$106,850
Operating Expenses:				
Operation and Maintenance	\$84,289	\$83,423	\$84,289	\$83,423
Depreciation	11,578	6,587	11,578	6,587
Property & Other Taxes	9,197	3,216	9,197	3,216
Income Tax	0	0	0	0
Total Operating Expense	\$105,064	\$93,226	\$105,064	\$93,226
Operating Income/(Loss)	(\$8,799)	\$8,073	\$23,201	\$13,624
Rate Base O.C.L.D.	\$25,857	\$4,084	\$25,857	\$4,084
Rate of Return - O.C.L.D.	N/M	197.68%	89.73%	333.61%
Operating Margin	N/M	7.97%	18.09%	12.75%

NOTES: Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$222,243	\$216,020	A	\$438,263
Less:				
Accum. Depreciation	43,929	124,610	B	168,539
Net Plant	\$178,314	\$91,410		\$269,724
Less:				
Plant Advances	\$27,855	\$38,502	C	\$66,357
Customer Deposits	10,321	0		10,321
Total Advances	\$38,176	\$38,502		\$76,678
Contributions Gross	\$114,281	\$127,550	D	\$241,831
Less:				
Amortization of CIAC	0	42,983	E	42,983
Net CIAC	\$114,281	\$84,567		\$198,848
Total Deductions	\$152,457	\$123,069		\$275,526
Plus:				
1/24 Power	\$0	\$271	F	\$271
1/8 Operation & Maint.	0	9,615	G	9,615
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$9,886		\$9,886
Rate Base	\$25,857	(\$21,773)		\$4,084

Explanation of Adjustment:

- A - See Schedule 2, Page 2, 3, and 4
- B - See Schedule 2, Page 5
- C - See Schedule 2, Page 6
- D - See Schedule 2, Page 6
- E - See Schedule 2, Page 6
- F - See Schedule 2, Page 7
- G - See Schedule 2, Page 7

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	9,259	(8,509) A	750
304 Structures & Improvements	17,400	16,998 B	34,398
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	39,152	10,432 C	49,584
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	228	0	228
310 Power Generated Equipment	1,054	0	1,054
311 Pumping Equipment	16,793	19,763 D	36,556
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	0	0	0
320.2 Solution Chemical Feeders	1,608	2,138 E	3,746
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	12,284	18,744 F	31,028
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	42,652	143,883 G	186,535
333 Services	10,847	(635) H	10,212
334 Meters & Meter Installations	25,293	20,427 I	45,720
335 Hydrants	11,264	0	11,264
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	6,690	3,488 J	10,178
340 Office Furniture & Equipment	1,841	(107) K	1,734
340.1 Computers & Software	0	1,239 L	1,239
341 Transportation Equipment	12,000	(12,000) M	0
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	12,481	157 N	12,638
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	1,399	0	1,399
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$222,243	\$216,020	\$438,263

Explanation of Adjustment:

- A - See Schedule 2, Page 3
- B - See Schedule 2, Page 3
- C - See Schedule 2, Page 3
- D - See Schedule 2, Page 3
- E - See Schedule 2, Page 3
- F - See Schedule 2, Page 3
- G - See Schedule 2, Page 3
- H - See Schedule 2, Page 3
- I - See Schedule 2, Page 4
- J - See Schedule 2, Page 4
- K - See Schedule 2, Page 4
- L - See Schedule 2, Page 4
- M - See Schedule 2, Page 4
- N - See Schedule 2, Page 4

STAFF PLANT ADJUSTMENTS

A -	LAND & LAND RIGHTS - Per Company	\$9,259	
		Per Staff	750
			<u>(\$8,509)</u>
	To properly reflect account balance per Decision No. 64665 and remove unsupported plant additions		
B -	STRUCTURES & IMPROVEMENTS - Per Company	\$17,400	
		Per Staff	34,398
			<u>\$16,998</u>
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
C -	WELLS & SPRINGS - Per Company	\$39,152	
		Per Staff	49,584
			<u>\$10,432</u>
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
D -	PUMPING EQUIPMENT - Per Company	\$16,793	
		Per Staff	36,556
			<u>\$19,763</u>
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
E -	SOLUTION CHEMICAL FEEDERS - Per Company	\$1,608	
		Per Staff	3,746
			<u>\$2,138</u>
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
F -	STORAGE TANKS - Per Company	\$12,284	
		Per Staff	31,028
			<u>\$18,744</u>
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
G -	TRANSMISSION & DISTRIBUTION MAINS - Per Company	\$42,652	
		Per Staff	186,535
			<u>\$143,883</u>
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
H -	SERVICES - Per Company	\$10,847	
		Per Staff	10,212
			<u>(\$635)</u>
	To properly reflect account balance per Decision No. 64665 and remove unsupported plant additions		

STAFF ADJUSTMENTS (Cont.)

I -	METERS & METER INSTALLATIONS - Per Company	\$25,293	
	Per Staff	45,720	\$20,427
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
J -	OTHER PLANT AND MISCELLANEOUS EQUIPMENT - Per Company	\$6,690	
	Per Staff	10,178	\$3,488
	To properly reflect account balance per Decision No. 64665 and supported plant additions		
K -	OFFICE FURNITURE & EQUIPMENT - Per Company	\$1,841	
	Per Staff	1,734	(\$107)
	To properly reflect account balance per Decision No. 64665 and remove unsupported plant additions		
L -	COMPUTERS & SOFTWARE- Per Company	\$0	
	Per Staff	1,239	\$1,239
	To properly reflect plant addition supported by documentation		
M -	TRANSPORTATION EQUIPMENT - Per Company	\$12,000	
	Per Staff	0	(\$12,000)
	To properly reflect account balance per Decision No. 64665 and remove unsupported plant additions		
N -	TOOLS SHOP & GARAGE EQUIPMENT - Per Company	\$12,481	
	Per Staff	12,638	\$157
	To properly reflect account balance per Decision No. 64665 and supported plant additions		

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$43,929
Accumulated Depreciation - Per Staff	168,539
Total Adjustment	\$124,610 B

B - To reflect Staff's calculation of accumulated depreciation expense based upon Staff's adjustments to plant.

Accumulated Depreciation per last decision		\$77,717
2001 Credit to Accumulated Depreciation	\$10,367	
2002 Credit to Accumulated Depreciation	\$11,706	
2003 Credit to Accumulated Depreciation	\$12,053	
2004 Credit to Accumulated Depreciation	\$12,665	
2005 Credit to Accumulated Depreciation	\$12,816	
2006 Credit to Accumulated Depreciation	\$14,906	
2007 Credit to Accumulated Depreciation	<u>\$16,309</u>	\$90,822
Accumulated Depreciation 12/31/2007 Staff Balance		\$168,539
Less: Company Balance		<u>\$43,929</u>
Staff Adjustment		\$124,610

Montezuma Rimrock Water Company, L.L.C.

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STAFF RATE BASE ADJUSTMENTS

C	-	ADVANCES IN AID OF CONSTRUCTION ("AIAC") - Per Company	\$27,855	
		Per Staff	66,357	<u>\$38,502</u>
		To reflect Staff's calculation of AIAC based upon balance established by Decision No. 64665 and documentation submitted by the Company		
		AIAC balance 12/31/2000 per Decision No. 64665		\$36,572
		2001 Addition to AIAC	\$4,270	
		2002 Addition to AIAC	\$1,130	
		2005 Addition to AIAC	\$9,400	
		2006 Addition to AIAC	\$11,460	
		2007 Addition to AIAC	<u>\$6,995</u>	\$33,255
		AIAC Additions		\$69,827
		Less: 2003 Advance Refund		<u>\$3,470</u>
		Staff Balance, AIAC 12/31/2007		\$66,357
D	-	CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") - Per Company	\$114,281	
		Per Staff	241,831	<u>\$127,550</u>
		To reflect Staff's calculation of CIAC based upon balance established by Decision No. 64665 and documentation submitted by the Company		
		CIAC balance 12/31/2000 per Decision No. 64665		\$88,800
		2001 Addition to CIAC	\$18,000	
		2002 Addition to CIAC	\$20,750	
		2005 Addition to CIAC	\$42,000	
		2006 Addition to CIAC	\$36,421	
		2007 Addition to CIAC	<u>\$35,860</u>	\$153,031
		Staff Balance, CIAC 12/31/2007		<u>\$241,831</u>
E	-	AMORTIZATION OF CIAC - Per Company	\$0	
		Per Staff	42,983	<u>\$42,983</u>
		To reflect Staff's calculation of amortization of CIAC based upon Staff's adjustments to CIAC account balance		

STAFF ADJUSTMENTS (Cont.)

F	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company	\$	-	
		Per Staff		271	\$271

To reflect Staff's calculation of cash working capital based upon
Staff's recommendations for purchased power and purchased water

G	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company	\$	-	
		Per Staff		9,615	\$9,615

To reflect Staff's calculation of cash working capital based upon
Staff's recommendations for operation and maintenance expense
(excluding purchased power and purchased water expenses)

Montezuma Rimrock Water Company, L.L.C.

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STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$91,904	\$5,034 A	\$96,938
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	4,361	0	4,361
Total Operating Revenue	\$96,265	\$5,034	\$101,299
Operating Expenses:			
601 Salaries and Wages	\$8,516	(\$847) B	\$7,669
610 Purchased Water	697	13 C	710
615 Purchased Power	5,559	234 D	5,793
618 Chemicals	802	0	802
620 Repairs and Maintenance	14,449	819 E	15,268
621 Office Supplies & Expense	11,372	0	11,372
630 Outside Services	16,664	(2,005) F	14,659
635 Water Testing	2,709	(658) G	2,051
641 Rents	5,500	0	5,500
650 Transportation Expenses	10,507	1,579 H	12,086
657 Insurance - General Liability	4,420	0	4,420
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	1,545	0	1,545
675 Miscellaneous Expense	1,549	0	1,549
403 Depreciation Expense	11,578	(4,991) I	6,587
408 Taxes Other Than Income	5,981	(5,981) J	0
408.11 Property Taxes	3,216	0	3,216
409 Income Tax	0	0	0
Total Operating Expenses	\$105,064	(\$11,838)	\$93,226

OPERATING INCOME/(LOSS)	(\$8,799)	\$16,872	\$8,073
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Other Income/(Expense):

419 Interest and Dividend Income	\$75	\$0	\$75
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	(702)	0	(702)
Total Other Income/(Expense)	\$777	\$0	\$777

NET INCOME/(LOSS)	(\$8,022)	\$16,872	\$8,850
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STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company	\$91,904	
	Per Staff	96,938	\$5,034
	To reflect the metered water revenue per the Company's submitted bill count		
B -	SALARIES AND WAGES - Per Company	\$8,516	
	Per Staff	7,669	(\$847)
	To reflect Staff's computation of Salaries & Wages based on documentation submitted by the Company		
C -	PURCHASED WATER - Per Company	\$697	
	Per Staff	710	\$13
	To reflect Staff's computation of Purchased Water based on documentation submitted by the Company		
D -	PURCHASED POWER - Per Company	\$5,559	
	Per Staff	5,793	\$234
	To reflect Staff's computation of Purchased Power based on documentation submitted by the Company		
E -	REPAIRS & MAINTENANCE - Per Company	\$14,449	
	Per Staff	15,268	\$819
	To reflect Staff's computation of Repairs & Maintenance based on documentation submitted by the Company		
F -	OUTSIDE SERVICES - Per Company	\$16,664	
	Per Staff	14,659	(\$2,005)
	To reflect Staff's computation of Outside Services based on Staff's removal of unsupported claimed expenses		
G -	WATER TESTING - Per Company	\$2,709	
	Per Staff	2,051	(\$658)
	To reflect Staff's annual water testing expense		
H -	TRANSPORTATION EXPENSES - Per Company	\$10,507	
	Per Staff	12,086	\$1,579
	To reflect Staff's computation of Transportation Expense based on documentation submitted by the Company		

STAFF ADJUSTMENTS (Cont.)

I - DEPRECIATION - Per Company
Per Staff

\$11,578
6,587 (\$4,991)

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

DESCRIPTION	PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciate PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
Organization	\$ -	\$ -	\$ -	0.00%	\$ -
Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
Land & Land Rights	\$ 750	\$ 750	\$ -	0.00%	\$ -
Structures & Improvem	\$ 34,398	\$ -	\$ 34,398	3.33%	\$ 1,147
Wells & Springs	\$ 49,584	\$ -	\$ 49,584	3.33%	\$ 1,653
Infiltration Galleries	\$ -	\$ -	\$ -	6.67%	\$ -
Raw Water Supply Mai	\$ 228	\$ -	\$ 228	2.00%	\$ 5
Power Generated Equi	\$ 1,054	\$ -	\$ 1,054	5.00%	\$ 53
Pumping Equipment	\$ 36,556	\$ 23,159	\$ 13,397	12.50%	\$ 1,675
Water Treatment Equip	\$ -	\$ -	\$ -	0.00%	\$ -
Water Treatment Pl	\$ -	\$ -	\$ -	3.33%	\$ -
Solution Chemical Fe	\$ 3,746	\$ -	\$ 3,746	20.00%	\$ 749
Distribution Reservoirs	\$ -	\$ -	\$ -	0.00%	\$ -
Storage Tanks	\$ 31,028	\$ -	\$ 31,028	2.22%	\$ 689
Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
Transmission & Distrib	\$ 186,535	\$ -	\$ 186,535	2.00%	\$ 3,731
Services	\$ 10,212	\$ -	\$ 10,212	3.33%	\$ 340
Meters & Meter Install	\$ 45,720	\$ -	\$ 45,720	8.33%	\$ 3,810
Hydrants	\$ 11,264	\$ -	\$ 11,264	2.00%	\$ 225
Backflow Prevention D	\$ -	\$ -	\$ -	6.67%	\$ -
Other Plant and Misc. I	\$ 10,178	\$ -	\$ 10,178	6.67%	\$ 679
Office Furniture & Equi	\$ 1,734	\$ -	\$ 1,734	6.67%	\$ 116
Computers & Softwa	\$ 1,239	\$ -	\$ 1,239	20.00%	\$ 248
Transportation Equipm	\$ -	\$ -	\$ -	20.00%	\$ -
Tools Shop & Garage	\$ 12,638	\$ -	\$ 12,638	5.00%	\$ 632
Laboratory Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
Power Operated Equip	\$ 1,399	\$ -	\$ 1,399	5.00%	\$ 70
Communication Equipr	\$ -	\$ -	\$ -	10.00%	\$ -
Miscellaneous Equipm	\$ -	\$ -	\$ -	10.00%	\$ -
Other Tangible Plant	\$ -	\$ -	\$ -	0.00%	\$ -
Total	\$ 438,263	\$ 23,909	\$ 414,354		\$ 15,819

Depreciation Expense Before Amortization of CIAC: \$ 15,819

Amortization of CIAC \$ 9,233

Test Year Depreciation Expense - Staff: \$ 6,587

Depreciation Expense - Company: \$11,578

Staff's Total Adjustment: \$ (4,991)

Pro Forma Annual Depreciation Expense:

Plant in Service	\$438,263
Less: Non Depreciable Plant	750
Fully Depreciated Plant	23,159
Depreciable Plant	\$414,354
Times: Staff Proposed Depreciation Rate	3.82%
Full Year Credit to Accumulated Depreciation	\$15,819 *
Less: Amort. of CIAC* @ 3.90%	9,233
Pro Forma Annual Depreciation Expense	\$6,587

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STAFF ADJUSTMENTS (Cont.)

J -	TAXES OTHER THAN INCOME - Per Company	\$5,981	
	Per Staff	<u>0</u>	<u>(\$5,981)</u>

To reflect removal of sales taxes included in operating expense

Montezuma Rimrock Water Company, L.L.C.

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RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$27.25	\$27.25	\$27.25
3/4" Meter	40.88	40.88	40.88
1" Meter	68.13	68.13	68.13
1½" Meter	136.25	136.25	136.25
2" Meter	216.39	216.39	218.00
3" Meter	408.75	408.75	436.00
4" Meter	681.25	618.25	681.25
6" Meter	1,362.50	1,362.50	1,362.50
Gallons Included in Minimum			
For all Meter Sizes	0	0	0
Commodity Rates:			
Per 1,000 Gallons for all usage	\$1.85	N/A	N/A
Per 1,000 Gallons for 0 to 10,000 Gallons	N/A	\$1.85	N/A
Per 1,000 Gallons for 10,001 to 20,000 Gallons	N/A	\$3.70	N/A
Per 1,000 Gallons for Gallons in Excess of 20,000	N/A	\$5.55	N/A
Per 1,000 Gallons for 0 to 4,000 Gallons	N/A	N/A	\$1.50
Per 1,000 Gallons for 4,001 to 10,000	N/A	N/A	\$2.50
Per 1,000 Gallons for Gallons in Excess of 10,000	N/A	N/A	\$4.00

RATE DESIGN (Cont.)

Service Line and Meter Installation Charges Same Side of Road as Water Main

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$500	\$500	\$370	\$130	\$500
3/4-inch	\$550	\$550	\$370	\$180	\$550
1-inch	\$625	\$625	\$400	\$225	\$625
1½-inch	\$900	\$900	\$450	\$450	\$900
2-inch Turbo	\$1,450	\$2,350	\$550	\$900	\$1,450
2-inch Compound	\$2,125	\$3,400	\$550	\$1,575	\$2,125
3-inch Turbo	\$1,975	\$3,175	\$765	\$1,210	\$1,975
3-inch Compound	\$2,750	\$4,375	\$795	\$1,955	\$2,750
4-inch Turbo	\$3,175	\$5,100	\$1,055	\$2,120	\$3,175
4-inch Compound	\$4,025	\$6,425	\$1,095	\$2,930	\$4,025
6-inch Turbo	\$6,025	\$9,625	\$1,600	\$4,425	\$6,025
6-inch Compound	\$7,850	\$12,550	\$1,730	\$6,120	\$7,850

Service Line and Meter Installation Charges Other Side of Road from Water Main

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$800	\$800	\$670	\$130	\$800
3/4-inch	\$875	\$875	\$695	\$180	\$875
1-inch	\$1,000	\$1,000	\$775	\$225	\$1,000
1½-inch	\$1,425	\$1,425	\$975	\$450	\$1,425
2-inch Turbo	\$2,350	\$2,350	\$1,450	\$900	\$2,350
2-inch Compound	\$3,400	N/A	\$1,825	\$1,575	\$3,400
3-inch Turbo	\$3,175	\$3,175	\$1,965	\$1,210	\$3,175
3-inch Compound	\$4,375	N/A	\$2,420	\$1,955	\$4,375
4-inch Turbo	\$5,100	\$5,100	\$2,980	\$2,120	\$5,100
4-inch Compound	\$6,425	N/A	\$3,495	\$2,930	\$6,425
6-inch Turbo	\$9,625	\$9,625	\$5,200	\$4,425	\$9,625
6-inch Compound	\$12,550	N/A	\$6,430	\$6,120	\$12,550

RATE DESIGN (Cont.)

Service Charges

Service Charges	Present	-Proposed Rates-	
	Rates	Company	Staff
Establishment	\$40.00	\$40.00	\$40.00
Establishment (After Hours)	60.00	60.00	60.00
Reconnection (Delinquent)	50.00	50.00	50.00
Reconnection (Delinquent) after hours	N/A	50.00	50.00
Meter Test (if correct)	30.00	30.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	25.00	25.00	25.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	15.00	15.00
Late Fee	1.5% after 15 days	1.5% after 15 days	1.5% after 15 days
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	***	N/A	****
6"	***	N/A	****
8"	***	N/A	****
10"	***	N/A	****
Larger than 10"	***	N/A	****

* Per Commission Rules R14-2-403(B)

** Months off system times the monthly minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 196

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,813	\$38.00	\$38.00	\$0.00	0.0%
Median Usage	4,415	\$35.42	\$35.42	\$0.00	0.0%

<u>Staff Recommend</u>					
Average Usage	5,813	\$38.00	\$37.78	(\$0.22)	-0.6%
Median Usage	4,415	\$35.42	\$34.29	(\$1.13)	-3.2%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$27.25	\$27.25	0.0%	\$27.25	0.0%
1,000	29.10	29.10	0.0%	28.75	-1.2%
2,000	30.95	30.95	0.0%	30.25	-2.3%
3,000	32.80	32.80	0.0%	31.75	-3.2%
4,000	34.65	34.65	0.0%	33.25	-4.0%
5,000	36.50	36.50	0.0%	35.75	-2.1%
6,000	38.35	38.35	0.0%	38.25	-0.3%
7,000	40.20	40.20	0.0%	40.75	1.4%
8,000	42.05	42.05	0.0%	43.25	2.9%
9,000	43.90	43.90	0.0%	45.75	4.2%
10,000	45.75	45.75	0.0%	48.25	5.5%
15,000	55.00	64.25	16.8%	68.25	24.1%
20,000	64.25	82.75	28.8%	88.25	37.4%
25,000	73.50	110.50	50.3%	108.25	47.3%
50,000	119.75	249.25	108.1%	208.25	73.9%
75,000	166.00	388.00	133.7%	308.25	85.7%
100,000	212.25	526.75	148.2%	408.25	92.3%
125,000	258.50	665.50	157.4%	508.25	96.6%
150,000	304.75	804.25	163.9%	608.25	99.6%
175,000	351.00	943.00	168.7%	708.25	101.8%
200,000	397.25	1,081.75	172.3%	808.25	103.5%

FINANCIAL ANALYSIS

**Selected Financial Data
Arsenic Surcharge**

Line No.	[A] Staff Recommended Permanent Rates Without Loan	[B] Arsenic Treatment System \$165,000 Loan At 8.00 Percent Interest Adjustments	[C] Staff Recommended Rates With Arsenic Surcharge Loan, Principle, Interest & Income Taxes
1	Income Statement		
	Operating Revenue		
2	Metered Water Revenue	\$ 102,489	\$ 102,489
3	Arsenic Surcharge	\$ -	\$ 16,562
4	Unmetered Water Revenue	\$ -	\$ -
5	Other Water Revenues	\$ 4,361	\$ 4,361
6	Total Operating Revenues	\$ 106,850	\$ 123,412
	Operating Expenses		
7	Salaries and Wages	\$ 7,669	\$ 7,669
8	Purchased Water	\$ 710	\$ 710
9	Purchased Power	\$ 5,793	\$ 5,793
10	Chemicals	\$ 802	\$ 802
11	Repairs & Maintenance	\$ 15,268	\$ 15,268
12	Office Supplies and Expense	\$ 11,372	\$ 11,372
13	Outside Services	\$ 14,659	\$ 14,659
14	Water Testing	\$ 2,051	\$ 2,051
15	Rents	\$ 5,500	\$ 5,500
16	Transportation Expenses	\$ 12,086	\$ 12,086
17	Insurance - General Liability	\$ 4,420	\$ 4,420
18	Insurance - Health and Life	\$ -	\$ -
19	Regulatory Commission Expense	\$ 1,545	\$ 1,545
20	Miscellaneous Expense	\$ 1,549	\$ 1,549
21	Depreciation Expense	\$ 6,587	\$ 6,587
22	Taxes Other Than Income	\$ -	\$ -
23	Property Taxes	\$ 3,216	\$ 3,216
24	Income Tax	\$ -	\$ -
25	Total Operating Expenses	\$ 93,226	\$ 93,226
26	Operating Income	\$ 13,624	\$ 30,186
27	Interest and Dividend Income	\$ 75	\$ 75
28	Non-Utility Income	\$ -	\$ -
29	Interest Expense	\$ -	\$ 13,074
30	Reserve/Replacement Fund Deposit	\$ -	\$ -
31	Miscellaneous Non-Utility Expense	\$ (702)	\$ (702)
32	Total Other Interest Expense	\$ (626)	\$ 12,448
33	Net Income	\$ 14,250	\$ 17,738
34	Principal Repayment	\$ -	\$ 3,488
	TIER		
35	[L26 + L24] ÷ L29 DSC	N/A	2.31
36	[L26 + L24 + L21] ÷ [L29 + L34]	N/A	2.22

Montezuma Rimrock Water Company, L.L.C.
Docket No. W-04254A W-04254A-08-0361
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Schedule DRE-7

Line
No.

EXAMPLE - SURCHARGE AMOUNTS

Equivalent Annual Bills (2,583) = Number of Customers times meter size multiplier times 12 months

Arsenic Surcharge - as determined by Arsenic Removal Surcharge Mechanism (Loan Amount \$165,000)

Total Increase in Revenue \$ 16,562

Equivalent Annual Bills 2,583

Surcharge Amount \$ 6.41

Pro forma Effects on monthly bill

5/8"x 3/4" Meter	1	x	\$ 6.41	=	\$ 6.41
3/4" Meter	1.5	x	\$ 6.41	=	\$ 9.62
1" Meter	2.5	x	\$ 6.41	=	\$ 16.03
1½" Meter	5	x	\$ 6.41	=	\$ 32.06
2" Meter	8	x	\$ 6.41	=	\$ 51.29
3" Meter	15	x	\$ 6.41	=	\$ 96.18
4" Meter	25	x	\$ 6.41	=	\$ 160.29
6" Meter	50	x	\$ 6.41	=	\$ 320.59

TYPICAL BILL ANALYSIS

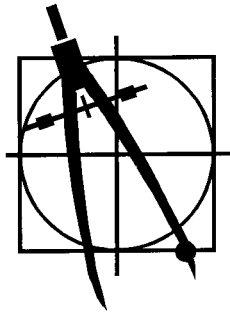
General Service 5/8 X 3/4 - Inch Meter With Arsenic Remedial Surcharge

Average Number of Customers: 196

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,813	\$38.00	\$38.00	\$0.00	0.0%
Median Usage	4,415	\$35.42	\$35.42	\$0.00	0.0%
<u>Staff Recommend</u>					
Average Usage	5,813	\$38.00	\$44.19	\$6.19	16.3%
Median Usage	4,415	\$35.42	\$40.70	\$5.28	14.9%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$27.25	\$27.25	0.0%	\$33.66	23.5%
1,000	29.10	29.10	0.0%	35.16	20.8%
2,000	30.95	30.95	0.0%	36.66	18.4%
3,000	32.80	32.80	0.0%	38.16	16.3%
4,000	34.65	34.65	0.0%	39.66	14.5%
5,000	36.50	36.50	0.0%	42.16	15.5%
6,000	38.35	38.35	0.0%	44.66	16.5%
7,000	40.20	40.20	0.0%	47.16	17.3%
8,000	42.05	42.05	0.0%	49.66	18.1%
9,000	43.90	43.90	0.0%	52.16	18.8%
10,000	45.75	45.75	0.0%	54.66	19.5%
15,000	55.00	64.25	16.8%	74.66	35.7%
20,000	64.25	82.75	28.8%	94.66	47.3%
25,000	73.50	110.50	50.3%	114.66	56.0%
50,000	119.75	249.25	108.1%	214.66	79.3%
75,000	166.00	388.00	133.7%	314.66	89.6%
100,000	212.25	526.75	148.2%	414.66	95.4%
125,000	258.50	665.50	157.4%	514.66	99.1%
150,000	304.75	804.25	163.9%	614.66	101.7%
175,000	351.00	943.00	168.7%	714.66	103.6%
200,000	397.25	1,081.75	172.3%	814.66	105.1%



**Engineering Report for
Montezuma Rimrock Water Company,
LLC**

Docket No. W-04254A-08-0361 (Rates)

By Marlin Scott, Jr.

February 25, 2009

CONCLUSIONS

- A. Montezuma Rimrock Water Company, LLC ("Company") is not within an Arizona Department of Water Resources ("ADWR") Active Management Area. According to ADWR, the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- B. A check with the Utilities Division Compliance Section showed that the Company had no delinquent Commission compliance issues.
- C. The Company has an approved curtailment tariff that became effective on April 1, 2002.
- D. The Company has an approved backflow prevention tariff that became effective on November 27, 1996.

RECOMMENDATIONS

- 1. The Company's system does not have adequate well and storage capacity at this time. Staff recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the Arizona Department of Environmental Quality ("ADEQ") Certificate for Approval of Construction for the new Well #4.
- 2. Staff recommends an annual water testing expense of \$2,051 be used for purposes of this application.
- 3. The ADEQ has reported that the Company is not currently delivering water that meets the water quality standards. Staff recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate for Approval of Construction for the arsenic treatment project.
- 4. The Company has adopted Staff's typical and customary depreciation rates as delineated in Table B and Staff recommends that the Company continue to use these depreciation rates.

5. The Company did not request changes to its service line and meter installation charges. However, Staff recommends approval of separate installation charges for the service line and meter installation charges as delineated in Tables C-1 and C-2.

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A. LOCATION OF COMPANY

Montezuma Rimrock Water Company, LLC ("Company") serves a community near Rimrock, which is located approximately ten miles northeast of Camp Verde. Figure 1 shows the location of the Company within Yavapai County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 3/8 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on September 10, 2008, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Patricia Olsen, Manager for the Company.

The current operation of the water system consists of two wells (15 and 55 gallons per minute), four storage tanks, two booster systems, and a distribution system serving 206 service connections during the test year ending 2007. A system schematic is shown in Figure 3 with a detailed plant facility listing as follows:

Table 1. Well Data

Well Information	Well #1	Well #3 (Well #2-capped)	Well #4 (Under construction)
ADWR ID No.	55-621604	55-202458	55-213141
Casing Size	12-inch	8-inch	12-inch
Casing Depth	265 ft.	350 ft.	400 ft.
Pump Size	5-Hp	3-Hp	-
Pump Type	Submersible	Submersible	-
Pump Yield	55 GPM	15 GPM	(est. 100 GPM)
Wellhead meter	1-1/2-inch	2-inch	-
Treatment	Liquid chlorinator	Liquid chlorinator	-

Table 2. Storage Tanks & Booster Systems

Location	Plant Facilities
Well Site #1	One 10,000 gallon & two 5,200 gallon storage tanks, two 7-1/2-Hp booster pumps & one 2,000 gallon pressure tank
Well Site #3	One 10,000 gallon storage tank, 5-Hp & 7-1/2-Hp booster pumps & one 2,000 gallon pressure tank

Table 3. Water Mains

Diameter	Material	* Length
2-inch	PVC	733 ft.
4-inch	PVC	16,700 ft.
6-inch	PVC	13,233 ft.
	Total:	30,666 ft.

* Note: Provided by the Company in a data request.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	197
3/4-inch	11
1-inch	1
2-inch	-
4-inch	-
Total:	209

Table 5. Hydrants

Size	Quantity
Standard	4

Table 6. Equipment & Structures

Equipment & Structures
Well Site #1 – 50 ft. x 100 ft. chain link fencing, 8 ft. x 10 ft. wooden building
Well Site #3 – 50 ft. x 50 ft. chain link fencing
Well Site #4 – 350 ft. chain link fencing (site under construction)

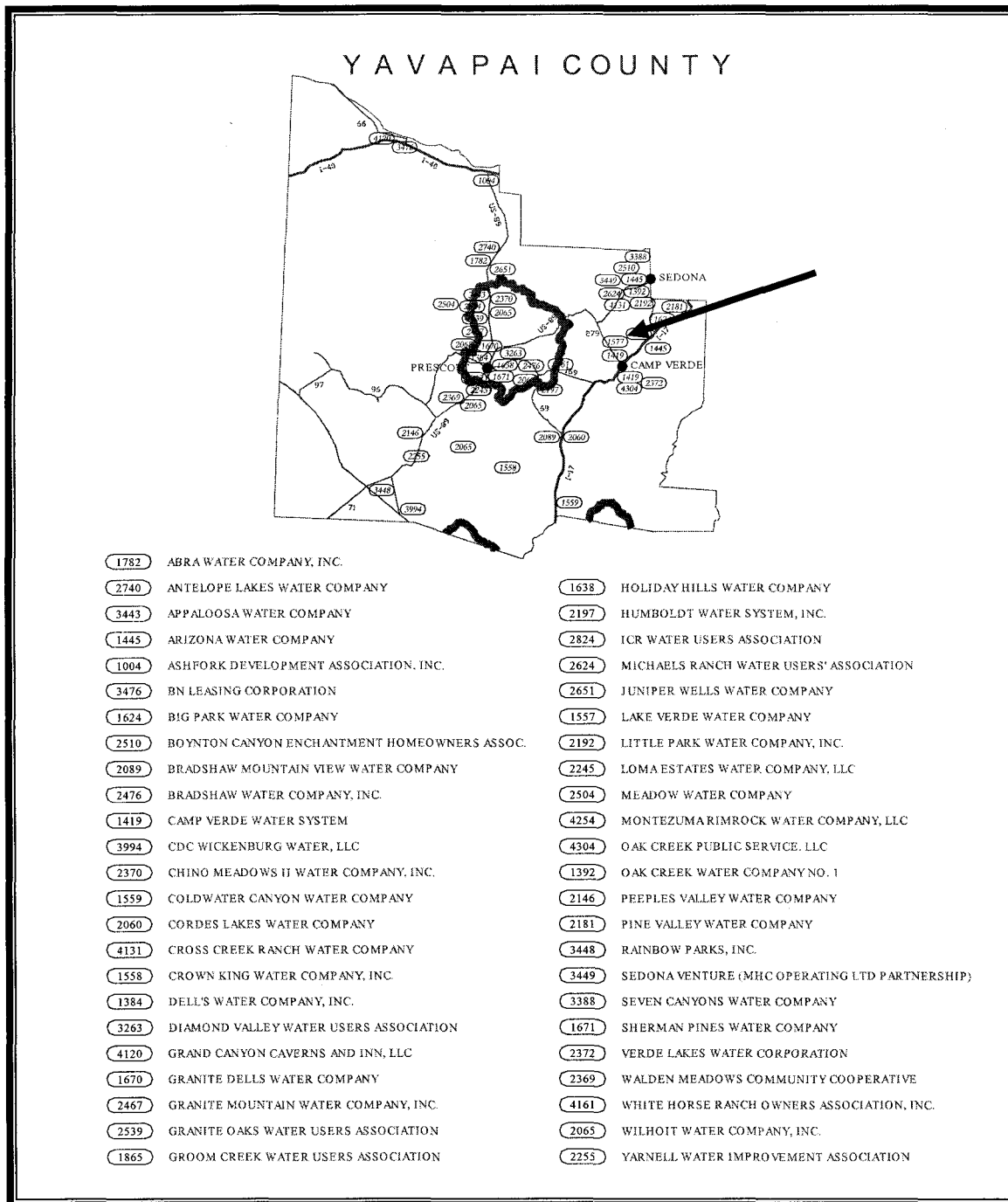


Figure 1. County Map

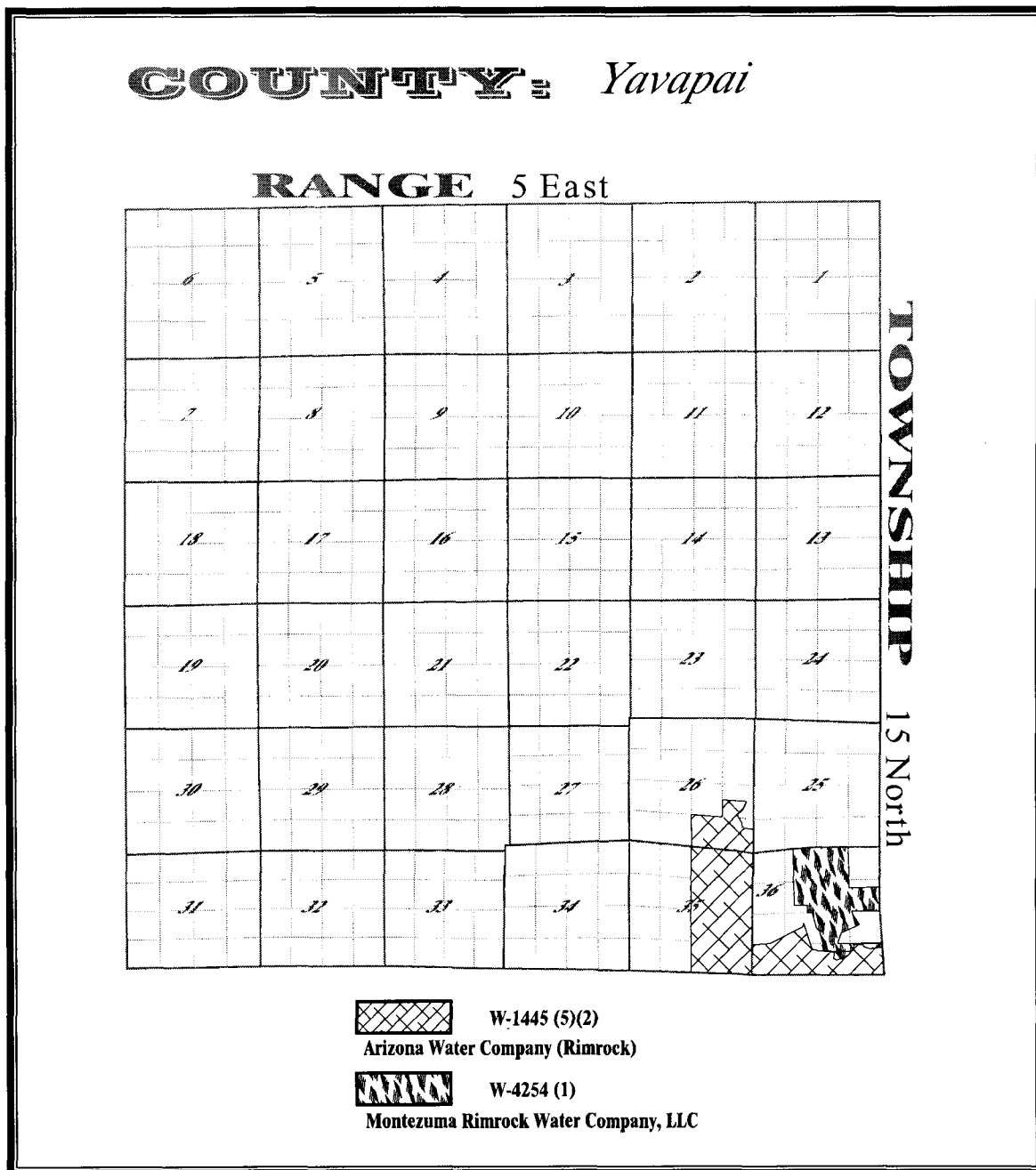


Figure 2. Certificated Area

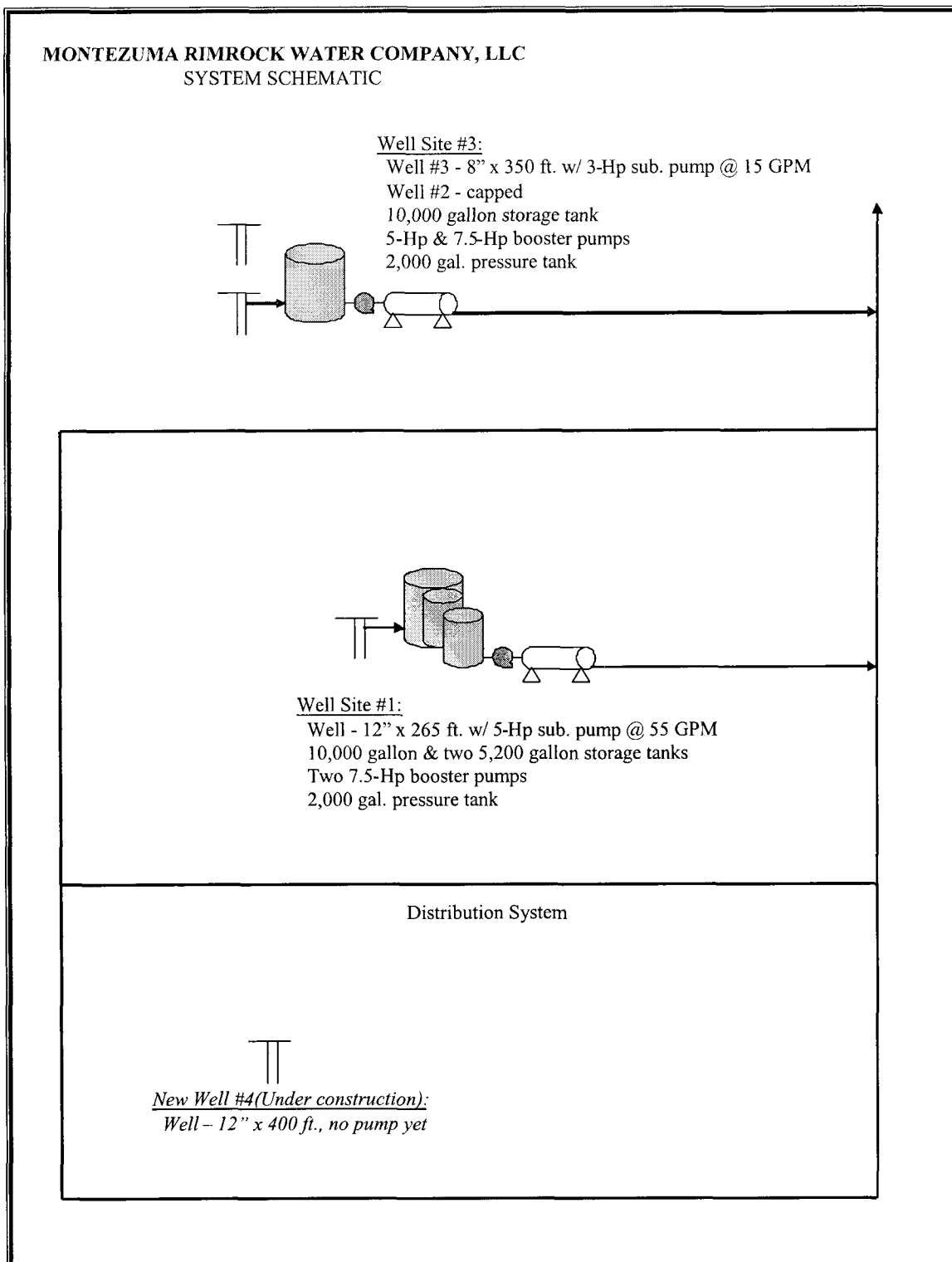


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending 2007. The customer consumption experienced a high monthly usage of 238 gallons per day ("GPD") per connection in July and a low monthly water use of 126 GPD per connection in January for an average monthly use of 186 GPD per connection.

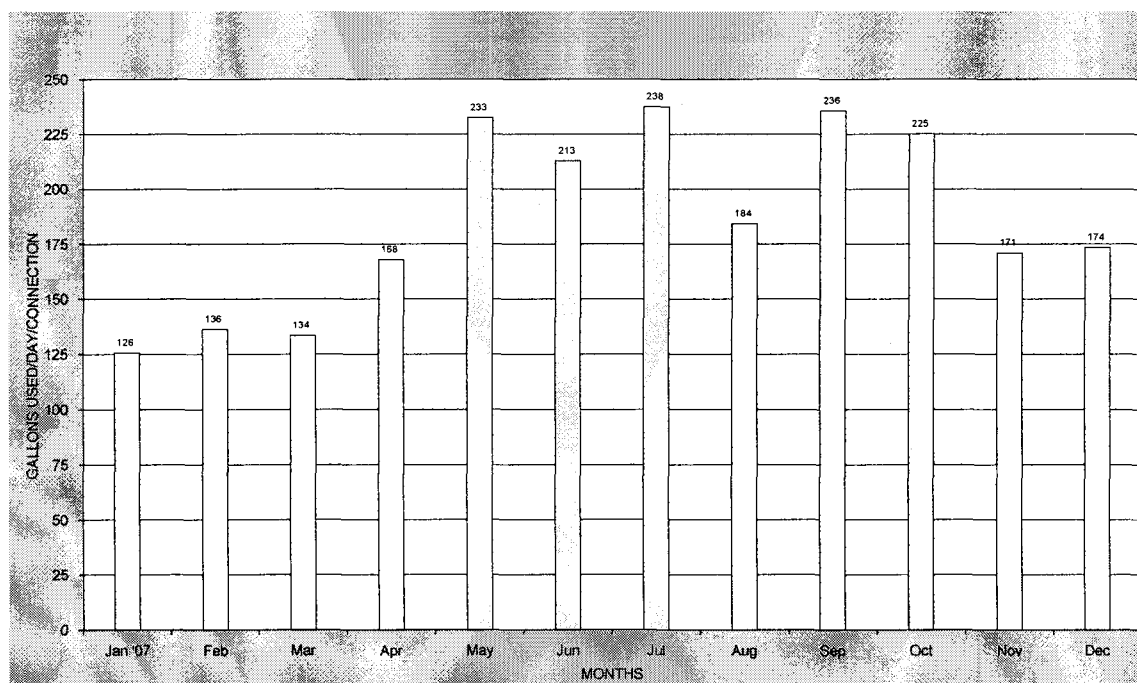


Figure 4. Water Use

Non-Account Water

The Company reported 15,009,000 gallons of water pumped and 14,239,000 gallons of water sold, resulting in a water loss of 5.1 percent. This 5.1 percent is within acceptable limits.

System Analysis

The current well capacity of 70 GPM and storage capacity of 30,400 gallons is adequate to serve up to 92 service connections. For this system to adequately serve the current 206 service connections, the system would need an additional 30,000 gallons of storage capacity.

The Company has begun construction of a new Wellsite #4, which is projected at 100 GPM. This additional well capacity would resolve the required storage capacity needed for this

system. Once this Well #4 is placed into operation, this system could then adequately serve up to approximately 425 service connections.

Staff recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate for Approval of Construction for the new Well #4.

D. GROWTH

Figure 5 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2007, the Company had 206 metered customers and it is projected that the Company could have approximately 310 customers by 2012.

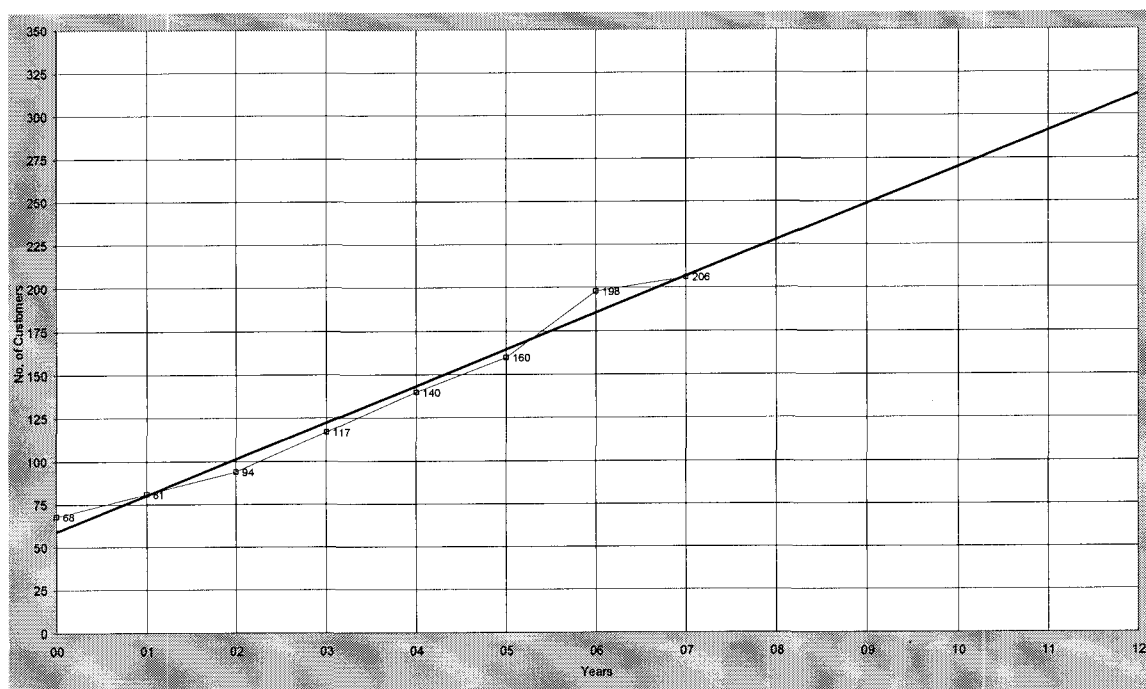


Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated August 18, 2008, ADEQ reported major deficiencies due to unresolved arsenic maximum contaminant level (“MCL”) issues. As a result, ADEQ cannot determine if this system, PWS #13-071, is currently delivering

water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

On December 17, 2008, ADEQ issued a Notice of Violation ("NOV") to the Company for distribution of water in excess of the MCL for arsenic. The NOV required the Company to submit documentation describing the measures that will be taken to resolve the arsenic exceedance. On February 11, 2009, the Company notified ADEQ that the Company is currently working with Water Infrastructure Finance Authority of Arizona ("WIFA") and the Commission for financing approval for the construction of the arsenic treatment project.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). The Company reported its water testing expense at \$2,709 during the test year. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Company chlorinates its wells and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of \$2,051 with participation in the MAP.

Table A. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$40	12	\$480
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$738
Lead & Copper – per 3 years	\$34	10	\$113
D/DBP – TTHM/HAA5 – per year	\$360	2	\$720
Total			\$2,051

Note: ADEQ's MAP invoice for the 2008 Calendar Year was \$738.30.

Staff recommends an annual water testing expense of \$2,051 be used for purposes of this application.

Arsenic

The Company reported the arsenic concentrations for its Well #1 at 35 parts per billion ("ppb") and Well #3 at 43 ppb. The new Well #4 has reported a concentration at 16 ppb. Based on these arsenic concentrations, the Company has submitted a financing application under

Docket No. 08-0362 to address this arsenic issue. See Attachment B for further discussion of the arsenic treatment financing request.

Staff recommends that the Company file with Docket Control, as a compliance item in this case, by December 31, 2009, a copy of the ADEQ Certificate for Approval of Construction for the arsenic treatment project.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any Active Management Area. According to ADWR, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section showed that the Company had no delinquent Commission compliance issues.

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company did not request any changes to its service line and meter installation charges. However, since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation.

Therefore, Staff recommends approval of the charges as shown in Tables C-1 and C-2 below, with separate installation charges for the service line and meter installations.

Table C-1. Service Line and Meter Installation Charges

Meter Size (Same side of road/water main)	Co.'s Current Charges	Service Line Charges	Meter Installation Charges	Total Charges
5/8 x 3/4-inch	\$500	\$370	\$130	\$500
3/4-inch	\$550	\$370	\$180	\$550
1-inch	\$625	\$400	\$225	\$625
1-1/2-inch	\$900	\$450	\$450	\$900
2-inch – Turbo	* \$1,450	\$550	\$900	\$1,450
2-inch – Compound	\$2,125	\$550	\$1,575	\$2,125
3-inch – Turbo	\$1,975	\$765	\$1,210	\$1,975
3-inch – Compound	\$2,750	\$795	\$1,955	\$2,750
4-inch – Turbo	\$3,175	\$1,055	\$2,120	\$3,175
4-inch – Compound	\$4,025	\$1,095	\$2,930	\$4,025
6-inch – Turbo	\$6,025	\$1,600	\$4,425	\$6,025
6-inch – Compound	\$7,850	\$1,730	\$6,120	\$7,850

* Note: In the prior rate case and its Decision No. 64665, this charge was omitted in the Ordering section, but was listed in the Finding of Fact section of the Decision.

Table C-2. Service Line and Meter Installation Charges

Meter Size (Other side of road/water main)	Co.'s Current Charges	Service Line Charges	Meter Installation Charges	Total Charges
5/8 x 3/4-inch	\$800	\$670	\$130	\$800
3/4-inch	\$875	\$695	\$180	\$875
1-inch	\$1,000	\$775	\$225	\$1,000
1-1/2-inch	\$1,425	\$975	\$450	\$1,425
2-inch – Turbo	\$2,350	\$1,450	\$900	\$2,350
2-inch – Compound	\$3,400	\$1,825	\$1,575	\$3,400
3-inch – Turbo	\$3,175	\$1,965	\$1,210	\$3,175
3-inch – Compound	\$4,375	\$2,420	\$1,955	\$4,375
4-inch – Turbo	\$5,100	\$2,980	\$2,120	\$5,100
4-inch – Compound	\$6,425	\$3,495	\$2,930	\$6,425
6-inch – Turbo	\$9,625	\$5,200	\$4,425	\$9,625
6-inch – Compound	\$12,550	\$6,430	\$6,120	\$12,550

2. Curtailment Tariff

The Company has an approved curtailment tariff that became effective on April 1, 2002.


3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on November 27, 1996.

MEMORANDUM

DATE: February 25, 2009

TO: Darak Eaddy
Public Utilities Analyst II
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

RE: Montezuma Rimrock Water Company, LLC
Docket No. W-04254A-08-0362 (Financing)

Introduction

On July 16, 2008, Montezuma Rimrock Water Company, LLC ("Company") submitted a financing application to assist in funding the construction of an arsenic treatment project. This project was estimated at \$150,000 in which the Company is requesting approval of funding through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness. On January 14, 2009, the Company submitted a filing requesting the WIFA loan amount be increased and approved for \$165,000. The Company operates a water system at Rimrock in Yavapai County.

Existing Water System

The existing operating system consists of two wells (Well #1 at 55 GPM and Well #3 at 15 GPM, totaling 70 GPM), four storage tanks (totaling 30,400 gallons), two booster systems and a distribution system serving approximately 206 customers. These two wells are located at different sites. The arsenic levels reported for Well #1 and Well #3 are 35 parts per billion ("ppb") and 43 ppb, respectively, which both exceed the arsenic standard of 10 ppb.

Proposed Treatment Project

The Company is proposing to add a new well, Well #4, which is projected at 100 GPM. This new well has been drilled and the site is currently under construction. The arsenic level reported for this well is at 16 ppb, which also exceeds the arsenic standard of 10 ppb.

The new Well #4 will be interconnected to Well #1 with 2,500 feet of transmission main. At Well #1, the Company is proposing to construct a 160 GPM arsenic treatment system to treat water from Wells #1 and #4.

Once the arsenic treatment system is placed into operation, the Company is anticipating that Well #3 (at 15 GPM with an arsenic level at 43 ppb) will be placed on a standby mode and/or will operate by blending the sources. The Company will further evaluate its options of Well #3 when the arsenic treatment project is completed and in operation.

Financing Application

The Company has filed a financing application to assist in funding the arsenic treatment project. The Company is requesting WIFA financing approval in the amount of \$165,000 for the arsenic project as follows:

1. Arsenic treatment system at 160 GPM	\$ 81,746
- Adedge treatment – adsorption media	
2. Grading and concrete slab at Well #1	\$ 5,816
3. Plumbing modifications & upgrade electrical	\$ 6,812
4. Water line interconnection with Well #1 & Well #4	\$ 42,870
- 2,500 feet of 4-inch PVC pipe	
5. New pump house, 10' x 20'	\$ 5,907
6. Radio telemetry	\$ 8,158
6. Engineering (8.3%)	\$ 13,691
	=====
Total:	\$165,000

Staff concludes that the arsenic treatment project is appropriate and the cost estimate totaling \$165,000 is reasonable.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

Compliance

According to an ADEQ Compliance Status Report, dated August 18, 2008, ADEQ reported major deficiencies due to unresolved arsenic maximum contaminant level (“MCL”) issues. As a result, ADEQ cannot determine if the Company’s system, PWS #13-071 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

On December 17, 2008, ADEQ issued a Notice of Violation (“NOV”) to the Company for distribution of water in excess of the MCL for arsenic. The NOV required the Company to submit documentation describing the measures that will be taken to resolve the arsenic exceedance. On February 11, 2009, the Company notified ADEQ that the Company is currently working with WIFA and the Commission for financing approval for the construction of the arsenic treatment project.

Conclusion/Recommendation

Staff concludes that the arsenic treatment project is appropriate and the cost estimate totaling \$165,000 is reasonable. No "used and useful" determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in the case, by December 31, 2009, a copy of the ADEQ Certificate for Approval of Construction for the arsenic treatment project.